

Message Text

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PAGE 01 SEOUL 05185 110852Z

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SUBJECT: FIRST PHASE OF "DRAWBACK" SYSTEM FOR TARIFF EXEMPTIONS
ON RAW MATERIALS FOR EXPORT INTRODUCED

REF: SEOUL 2369

SUMMARY: ROKG, AFTER REPEATED POSTPONEMENTS OF EARLIER TARGET DATES, HAS ANNOUNCED FIRST PHASE OF CONVERSION TO "DRAWBACK" SYSTEM FOR HANDLING TARIFF EXEMPTIONS ON IMPORTS OF RAW MATERIALS FOR EXPORT PRODUCTION. WHILE EVENTUAL FULL IMPLEMENTATION OF SYSTEM WILL RAISE EXPORTER FINANCING COSTS, IMPACT OF THIS INITIAL PHASE QUITE LIMITED. END SUMMARY.

1. ROKG HAS ANNOUNCED, EFFECTIVE JULY 1, FIRST PHASE OF WHAT IS EVENTUALLY INTENDED TO BE FULL CONVERSION TO "DRAWBACK" SYSTEM FOR HANDLING CUSTOMS DUTIES ON IMPORTS OF RAW AND INTERMEDIATE MATERIALS FOR USE IN EXPORT PRODUCTION. KOREAN TARIFF REGULATIONS PROVIDE FOR 100 PERCENT EXEMPTION OF CUSTOM DUTIES FOR SUCH MATERIALS

AS PREVIOUSLY ADMINISTERED, DUTIES WERE WAVIED AT TIME OF ENTRY

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PAGE 02 SEOUL 05185 110852Z

WITH INTENDED EXPORTER ALLOWED UP TO ONE YEAR, OR LONGER IF EXTEN-

SION APPROVED, TO EXPORT PRODUCT EMPLOYING THIS MATERIAL. UNDER FULL "DRAWBACK" SYSTEM EXPORTERS WOULD PAY DUTY ON ARRIVAL RAW MATERIALS AND RECEIVE REFUND WHEN PRODUCT EXPORTED. "DRAWBACK" SYSTEM HAS ADVANTAGES IN BEING EASIER TO ADMINISTER AND ALSO IN DISCOURAGING EXPORTERS FROM BUILDING UP EXCESSIVE INVENTORIES OF IMPORTED RAW MATERIALS. IT, OF COURSE, INCREASES EXPORTER FINANCING COSTS AND CREDIT NEEDS.

2. IN THIS FIRST PHASE, RAW MATERIALS FOR 356, OUT OF APPROXIMATELY 500 MAIN EXPORT CATEGORIES, HAVE BEEN SWITCHED TO "DRAWBACK" SYSTEM. HOWEVER, LIST OF 2,185 COMPANIES, SELECTED ON BASIS FINANCIAL STATUS AND CREDITWORTHINESS AND COMPRISING ABOUT 90 PERCENT OF ALL EXPORTERS, WILL BE ALLOWED TO MEET REQUIREMENT BY DEPOSITING PROMISSORY NOTE WITH MATURITY OF UP TO FOUR MONTHS AS A GENERAL RULE, AND WITH MATURITY EXTENDED TO BETWEEN 5 TO 7 MONTHS FOR 15 COMMODITIES WHICH REQUIRE LONGER-THAN-AVERAGE PRODUCTION PROCESS. ONLY PRACTICAL EFFECT FOR THESE COMPANIES IN THIS INITIAL PHASE IS THAT WAIVER PERIOD, IN EFFECT, REDUCED FROM ONE YEAR TO FOUR MONTHS (OR 5 TO 7 MONTHS FOR 15 COMMODITIES). FIRMS NOT ON THIS LIST CAN MEET REQUIREMENT BY PUTTING UP COLLATERAL IN LIEU OF CASH PAYMENT WITH SAME TIME RESTRICTIONS AS FAR PROMISSORY NOTES.

3. 356 EXPORT CATEGORIES SWITCHED TO "DRAWBACK" SYSTEM INCLUDE TEXTILE ITEMS (127 CATEGORIES); CHEMICAL ITEMS (101); PLYWOOD, FURNITURE AND WIGS (31); FLAT GLASS, STEEL PIPE AND STONE ITEMS (47); AND ELECTRONICS AND ELECTRIC RADIO, TV AND OTHER ITEMS (60). PROBLEMS IN CLASSIFYING REMAINING EXPORT CATEGORIES IS GIVEN AS REASON FOR TEMPORARILY RETAINING PREVIOUS DUTY WAIVER SYSTEM FOR REMAINDER OF EXPORT CATEGORIES. ACCORDING MINISTRY OF FINANCE (MOF) SOURCES, LIST OF CATEGORIES WILL BE REVISED EVERY THREE MONTHS WITH INTENT OF GRADUALLY EXPANDING "DRAWBACK" SYSTEM TO COVER ALL EXPORT CATEGORIES. ROKG ALSO PLANS TO GRADUALLY REDUCE MAXIMUM MATURITY OF PROMISSORY NOTE PERMITTED (OR PERIOD FOR WHICH COLLATERAL IN LIEU OF PAYMENT ACCEPTABLE), WITH EXPORTERS EVENTUALLY BEING REQUIRED TO PAY ACTUAL DUTY AT TIME OF CUSTOMS CLEARANCE.

4. ROKG HAS ALSO ANNOUNCED REVISED TARIFF RATES FOR 315 ITEMS, INCLUDING LOWER RATES FOR 181 RAW MATERIALS NORMALLY IMPORTED FOR EXPORT PRODUCTION. DETAILS ON TARIFF RATE CHANGES BEING REPORTED UNCLASSIFIED

UNCLASSIFIED

PAGE 03 SEOUL 05185 110852Z

BY SEPTTEL.

5. COMMENT: AFTER REPEATED POSTPONEMENTS OF EARLIER TARGET DATES FOR INSTALLING "DRAWBACK" SYSTEM LONG URGED BY IMF, ROKG HAS TAKEN FIRST STEP. PROVISIONS FOR USING PROMISSORY NOTES OR COLLATERAL IN LIEU OF PAYMENT ARE JUSTIFIED ON GROUNDS OF CURRENT TIGHT CREDIT POLICY AND FINANCIAL DIFFICULTIES OF MANY FIRMS WHO HAVE SUFFERED FROM EXPORT RECESSION. CONSIDERING ROKG.S GENERALLY

HIGH TARIFF RATES, CONVERSION TO FULL "DRAWBACK" SYSTEM WILL
CLEARLY RESULT IN HIGHER FINANCING COSTS FOR EXPORTERS OVER
TIME. HOWEVER, THIS PHASED IMPLEMENTATION OF SYSTEM SHOULD ALLOW
EXPORTERS ADEQUATE TIME TO ADJUST WITHOUT UNDUE DIFFICULTIES.
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